From: "Glenn Welch" <gwelch@hampdenbank.com> on 04/13/2006 02:25:00 PM

Subject: Commercial Real Estate Lending

Glenn Welch
Springfield, MA 01103-1618

April 13, 2006

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Dear Ms. Johnson:

OCC
Docket Number 06-01
Comments on Proposed Regulations
Concentrations in Commercial Real Estate lending, Sound Risk Management Practices

I am writing on behalf of Hampden Bank, a community bank with approximately $450 million in assets and located in Springfield, MA. While I understand that the federal regulatory agencies have expressed concern with the high concentrations of commercial real estate loans at some institutions, I believe the proposed guidance will have a serious impact on community banks and local economies in general.

Commercial real estate (CRE) lending has been an important business line for my institution and many other banks in Massachusetts. Community banks play an essential role in creating local economic growth by providing credit to small and medium-sized businesses for construction and land development. The proposed guidance will place a significant regulatory burden on banks that have a market niche in commercial real estate loans, limiting the institution's future growth in this area and possibly forcing some banks out of the market altogether.

I am particularly concerned with the "one-size-fits-all" nature of the proposed guidance. Institutions are automatically classified as having a "CRE concentration" simply if they exceed the thresholds. Portfolio diversification or other risk mitigation procedures are not taken into consideration. Because real estate markets vary greatly from region to region, and even within a particular state, the agencies should focus more attention on local market conditions and the overall condition of the individual institution than generic thresholds broadly applied to all banks.

As of March 31, 2006, Hampden Bank had approximately $80.5 million in non-owner occupied CRE loans as described in the proposed guidance. As of 12/31/05, the Bank's capital position was at $31.9MM, leaving approximately $15.3MM available for future growth in CRE based on the 300% test in the guidance. While total CRE exposure at the Bank is at $80.5 million, this figure includes a wide range of property types and varying risk profiles. The make-up of the portfolio as of 3/31/06 by property type is summarized as follows:

Property Type	Exposure ($000's)	Exposure %
CRE Investment Non-Residential	35,047	43.5%
CRE Investment – Multi-Family Residential	6,124	7.6%
Hotels / Motels	18,580	23.1%
Construction, Land Development & Other Land	20,746	25.8%
	80,497	100.0%

Approximately 53% of the CRE Investment Non-Residential consists of retail, retail strip mall exposure, approximately 30% of the total consists of office and medical office exposure, approximately 13% represents mixed use retail and office exposure, with the balance primarily C&I/warehouse exposure. CRE exposure is primarily centered in western Massachusetts, but does include some geographic diversification across central Massachusetts, northern Connecticut and a small amount in Vermont.

With regard to the 100% test outlined in the guidance, the Bank's current exposure for construction, land development and other land is presently well short of the 100% guideline; however, based on transactions in the Bank's current pipeline, exposure could quickly approach the proposed threshold, thus limiting the Bank's potential growth.

In addition, the guidance recommends increased capital levels for banks with CRE concentrations at a time when margins are under a great deal of various pressures. This requirement will place a serious burden on mutual institutions, which represent 70 percent of the banks in Massachusetts and who rely on earnings as their sole source of new capital. Therefore, institutions such as Hampden Bank would be forced to reduce or limit growth in the Bank's levels of a strong earning asset in commercial real estate during a period of significantly reduced margins.

Finally, the proposed guidance comes at a time when the agencies are also proposing changes to the capital system through the Basel I-A process. Both proposals could have a significant impact on community banks, and I encourage the agencies to better coordinate their efforts in this area.

Thank you again for the opportunity to comment on the proposed guidance and for considering my views.

Sincerely,

Glenn S. Welch